

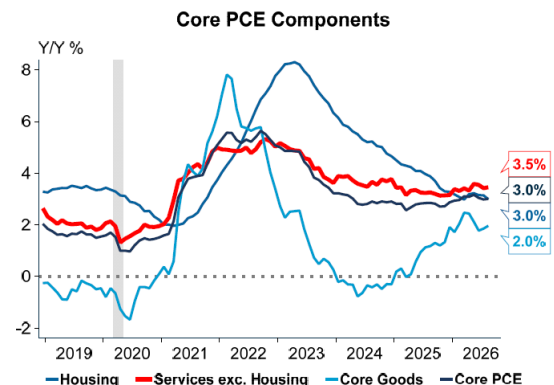
5 Key Questions with '27 in Sight

WEEKLY VIEW FROM THE DESK | October 5, 2026

[LINK TO WEEKLY RETURNS TABLE](#)

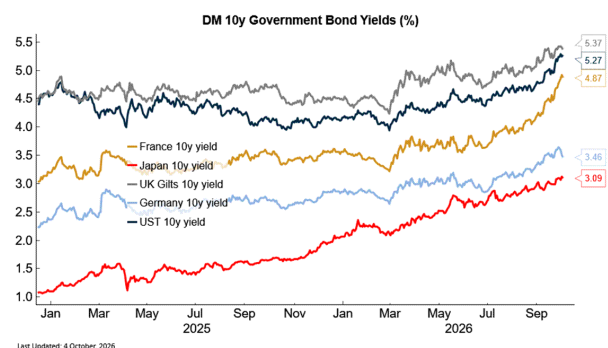
MACRO

- Recent visits to global clients provided some context around the key questions that investors are asking heading into 2027, starting with: **Is “one and done” a plausible Fed scenario?** While the Fed could pause in October, we don't think it is done hiking rates. Underlying U.S. demand remains very strong with real consumption tracking near a 4% annualized pace, while broader private domestic demand is also running at post-pandemic highs. Meanwhile, energy, trade, labor, technology inputs, and food are facing constraints that appear increasingly structural and geoeconomic (see accompanying chart). Finally, reduced interest-rate sensitivity on behalf of the broader economy does not justify easier Fed policy. If higher policy rates are transmitting through the economy less efficiently, the Fed may need to tighten more forcefully rather than stopping.
- Will the results of the U.S. Mid-Term elections matter?** Yes, we think they will be consequential. Our base case is that the Mid-Terms will result in a split federal government, which will leave DC gridlocked. Fiscal deficits will likely deepen as lack of discipline exists on both sides of the aisle. A renewed push for AI regulation and data center restrictions will emerge, but thin political margins will likely temper their impact. The biggest macro and market implication will likely be the next debt ceiling standoff, which will likely take place in mid-2027, when a less-established Democratic caucus may be more willing to seek concessions from the White House.
- How will the war in Iran end?** We think it's unlikely to end quickly or easily. We maintain a base case for a prolonged conflict, resulting in ~30-60% of shipping capacity through the Strait of Hormuz and Brent crude trading in a range of \$90-\$120 a barrel. We also see the possibility of greater escalation after the mid-term elections.
- Can French bond yields move even higher?** We believe it is possible. France is vulnerable amid high debt and deficits, weak growth, and political fragmentation. With French OATs trading about 150 bps wide to German bunds, there could be scope for spreads to widen into the 200 bps area. But we do not expect the ECB to intervene given that the current situation appears rooted in fiscal and political issues.
- Is U.S. recession risk rising?** We see it rising from a low base (10%) to about historical norms (20%). We maintain a U.S. economic base case (50%) for high growth and high inflation, but acknowledge the potential for further Fed tightening, another macro shock, and financial instability.



DEVELOPED MARKET RATES

- Global yield curves steepened last week, but Europe was the real story. French and Italian debt repriced sharply (see chart) due to a significant unwind of leveraged carry trades. Liquidity deteriorated in the market for French and Italian debt as investors rushed to unwind positions. The simultaneous buying of German debt and selling of French and Italian debt suggested that both sides of relative-value trades were being unwound.
- After the repricing, the combination of relatively low funding costs and substantially wider French spreads may offer potentially attractive carry for certain investors. The question is whether the leveraged unwind has largely run its course or whether additional positions still need to be reduced.
- MBS met heavy selling last week, leading us to consider adding risk going forward. We see the seasoned 4.5%, 5% and 5.5% pools as attractive after they underperformed most in September. We may add more Ginnie Mae production coupons vs Conventionals as OAS spreads revisit the 12-month wides.



Sources for charts: PGIM and Macrobond

IG CORPORATES

- Last week saw new issuance of about \$33B, with deals 2.6x oversubscribed and coming with a 0.5 bps concession. This week approximately \$25-30B of new issue is anticipated. The Paramount Skydance offering was the dominant talk of the week; of the \$33B of total new issuance last week, \$30B came from IG component of the Paramount deal.
- In Europe, the French selloff accelerated late in the week with the 10-year OAT-Bund spread touching 155, a greater than 8x standard deviation move over the past week. Notably the wider spread was due to both a Bund rally plus French and Italian yields moving higher.

LEVERAGED FINANCE

- High-yield credit markets extended their losing streak to a fifth consecutive week, as surging Treasury yields, record-breaking primary net supply, and deteriorating technicals combined to push risk premiums to a six-month high. The macro backdrop was dominated by persistent

inflation fears driven by elevated oil prices, resilient labor market data, and expanding business activity, which collectively reinforced expectations that the Fed could raise rates further.

- The primary market was dominated by Paramount Skydance Corp.'s record-setting \$11.4B high-yield bond offering, which represents the largest HY deal ever. Paramount's new issue priced on Wednesday but immediately traded down 4-6 points in early secondary trading, dampening sentiment and causing McGraw-Hill Education to downsize its concurrent offering by \$100M. The technical backdrop deteriorated over the week, with the New York Fed's HY Corporate Bond Market Distress Index rising to 0.11 from 0.08 in late August.
- Total returns were negative across all high-yield sectors this week. The best performers were containers, food/beverage/tobacco and healthcare. The three worst-performing sectors were cable, telecom and media.
- Reported flows for the week were negative, totaling -\$1.9B. For HY, this was the second-largest outflow since late March. The high-yield primary market priced approximately \$13.9bn across seven deals, compared to \$19.9B priced during the prior week. Beyond Paramount, notable transactions NCL Corp. (\$525M) was another notable transaction.
- U.S. bank loan spreads widened on the week. There has not been a lot of change in our outlook. We remain in a carry environment supported by: 1) more retail investor appetite; and 2) CLOs and mezzanine issues have been supportive of new issue amid demand for higher-quality paper. We think the decompression trade will continue for the time being.
- European HY spreads widened by 49 bps on the week, moving closer to the year-to-date wides, while primary issuance was resilient. The big theme in the market remains decompression. One of the worst performers in the market last week was TalkTalk Telecom Group Ltd., which will reportedly be acquired out of administration. Loan spreads were 19 bps wider, driven by lower-rated names.

EMERGING MARKETS

- EM spreads widened amid underperformance and decompression among Africa and Latin America issuers. Market moves have indicated that participants are a bit less patient regarding potential tail risks and how they might impact lower-rated names.
- There was mixed news last week. On the positive front, in Colombia, IMF support provides a floor given the sizeable adjustments needed; Angola received a positive outlook; and El Salvador reported progress with the IMF and with its budget. The more negative news included Gabon, which spooked the market with a new issue announcement. We have reduced risk, in particular in BB and single-B names, as we think that spreads are likely to widen. However, we still believe the yield/carry in some segments provides for good relative value opportunities. We are closely watching fundamentals to help differentiate the opportunity set.
- While the market began to find some clearing levels at wider spreads on Friday, it was a negative week for EM corporate spreads with HY underperforming. There was not much sector differentiation, as even oil & gas, which had been holding up well, was better offered. New issues have slowed, but Aeropuerto Cancun (BBB-rated) launched a \$1.8B two-tranche deal.
- The local rates index yield hit a two-year high in a volatile trading week. Except for Colombia, EM rates outperformed UST. CE-3 and Asian rates rallied as oil prices declined. In Latam, Brazil rallied ahead of the first-round election. The Colombian Central Bank surprised the market by hiking its policy rate by 25 bps. We are keeping our risk low and waiting for a better opportunity to either add to EM rates or unwind the UST hedge.
- The EMFX index yield fell as the UST curve bear steepened, led by real yields. Regionally, Latam and Europe underperformed, while Asia was stable. The main themes were de-risking in Latam, continued concerns around refined energy product prices in Europe, and select idiosyncratic drivers. There was some stability in markets after the benign U.S. NFP print, particularly in Asia FX.
- The biggest change in EMFX portfolios last week was reducing our overweight to TRY amid concerns that the risk-reward of holding such a position is less attractive amid higher U.S. rates and broad USD strength. This action resulted in us reducing our RV risk (long select high carry vs. short low carry). We think, in the near term, there is scope for USD to consolidate its gains as the market awaits the next big piece of data, CPI on Oct. 14. More medium term, we retain a long USD bias.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads widened 2-3 bps into the mid-high +70's in the secondary market last week. Subordinate tranches were framed wider with single-A in the +180's context and BBB- in the high +400's or wider. SASB: SASB spreads widened. Top tier AAA floaters are clearing at +130a. Fixed rate seniors are trading into the mid-high +80's. Curves remain flat.
- In residential, new-issue Non-QM markets continued to face pressure, with AAA spreads widening to ~T+140, about 10 bp wider WoW. Spreads moved wider across the capital structure as the ongoing rate selloff and elevated rate volatility, driven by Fed tightening and persistent inflation concerns, weighed on investor sentiment.
- U.S. CLO spreads for benchmark issuers showed some near-term resilience to hold spreads firmer despite macro volatility. Benchmark spreads across the capital structure continue to tighten despite softening in secondary markets. Mezzanine spreads for benchmark managers continue to be well supported, while nonbenchmark profiles move marginally wider. Demand across the capital continued to be supported, with investors willing to pay up for new or cleaner portfolios.
- EUR CLO spreads for benchmark issuers largely rangebound across tranches on the week. The benchmark/non benchmark basis remains extremely compressed in new issue. We continue to add selectively to European IG mezzanine tranches, where relative value remains attractive versus comparable U.S. CLO debt.
- ABS has outperformed corporates over the last few weeks, typical lag in market. ABS supply is picking up with \$7 billion in transactions across 12 deals so far, across US, Europe, and Australia. Order build-ups at the top of the capital stack for primary has generally been slow, while mezzanine classes are better supported at guidance levels. Secondary market is showing some cracks, a certain element of price discovery is prevalent, some dealers have been asked to lighten inventory, though not seeing major spread concessions.

MUNICIPALS

- Munis ended last week with modestly firmer valuations, but yields are still far off from late summer. Munis finished September with their worst monthly performance since September 2008 (-4.4%), and YTD returns are now meaningfully negative (IG -3.65%; HY -1.16%).
- Despite selling pressure from open end funds, ETFs saw record inflows this week into a cheaper muni environment. Supply this week is expected to be about \$22B, with technicals beginning to shift to headwinds as supply picks up and reinvestment falls.
- Although munis have disproportionately sold off, attractive relative valuations are likely to draw in larger retail audiences.

THE RETURNS TABLE AS OF OCTOBER 2, 2026

	Duration	YTM	OAS	WTD	Yield / OAS change (bps)				WTD	MTD	Total return (%)			
					MTD	QTD	YTD	Prior year			QTD	YTD	Prior year	
Sovereign rates														
U.S. 2-Year	1.87	4.83	---	-3	-6	-6	135	129	0.11	0.10	0.10	0.35	1.31	
U.S. 5-Year	4.36	5.05	---	7	-3	-3	133	138	-0.26	0.04	0.04	-2.82	-2.21	
U.S. 10-Year	7.71	5.27	---	11	-1	-1	110	119	-0.82	-0.01	-0.01	-5.15	-4.84	
U.S. 10-Year Breakeven	--	2.36	---	3	-1	-1	12	3	---	---	---	---	--	
U.S. 10-Year TIPS	4.29	2.91	---	9	-1	-1	101	116	-0.71	-0.06	-0.06	-4.00	-3.91	
U.S. 20-Year	11.97	5.67	---	12	0	0	88	102	-1.43	-0.12	-0.12	-7.05	-7.77	
U.S. 30-Year	14.50	5.62	---	13	-1	-1	78	93	-1.95	-0.07	-0.07	-7.83	-9.20	
U.S. SOFR	---	---	---	-2	-2	-2	1	-32	0.08	0.02	0.02	2.83	3.86	
UK 10-Year	7.59	5.37	---	0	-6	-6	89	66	0.03	0.41	0.41	-1.64	0.91	
Germany 10-Year	8.30	3.46	---	-14	-13	-13	61	76	1.16	0.89	0.89	-1.91	-2.54	
Switzerland 10-Year	8.45	0.52	---	-13	-5	-5	24	32	1.02	0.27	0.27	-1.59	-2.20	
Japan 10-Year	7.40	3.08	---	2	4	4	103	143	0.00	-0.14	-0.14	-4.66	-6.88	
Australia 10-Year	7.79	5.34	---	-3	-1	-1	60	100	0.46	0.13	0.13	-0.02	-2.16	
Canada 10-Year	8.06	3.94	---	2	-5	-5	51	77	0.02	0.47	0.47	-0.76	-1.68	
Major fixed income multi-sector indices		YTW												
Global Aggregate Unhedged	6.19	4.43	35	4	3	3	7	6	-0.51	-0.11	-0.11	-2.78	-2.63	
Global Aggregate Hedged	6.19	4.43	35	4	3	3	7	6	-0.18	0.10	0.10	-1.31	-0.72	
U.S. Aggregate	5.87	5.56	32	2	1	1	5	5	-0.60	0.05	0.05	-2.86	-2.16	
Euro-Aggregate (Unhedged)	6.13	3.94	67	15	9	9	24	19	0.22	0.27	0.27	-2.26	-2.10	
Japanese Aggregate	7.78	2.75	1	0	0	0	0	1	-0.05	-0.18	-0.18	-4.79	-6.80	
Major fixed income credit indices		YTW												
Mortgage-Backed (Agency)	5.79	5.92	40	4	-3	-3	19	13	-0.79	0.18	0.18	-3.13	-1.97	
Global IG Corporate Bonds	5.77	5.51	89	6	4	4	9	12	-0.65	-0.15	-0.15	-3.35	-2.80	
U.S. IG Corporate Bonds	6.60	6.05	82	3	2	2	5	9	-0.70	-0.01	-0.01	-3.13	-2.72	
European IG Corporate	4.51	4.22	101	14	10	10	23	24	0.34	0.14	0.14	-1.07	-0.93	
U.S. High Yield Bonds	3.59	8.29	306	13	-5	-5	40	37	-0.65	0.04	0.04	0.14	1.34	
European High Yield Bonds	3.36	6.94	348	48	27	27	67	68	-0.75	-0.45	-0.45	-0.14	0.41	
U.S. Leveraged Loans	0.3	9.92	485	12	3	3	30	40	-0.18	-0.03	-0.03	3.38	4.63	
European Leveraged Loans	0.3	8.65	484	21	12	12	10	16	-0.39	-0.20	-0.20	2.63	3.35	
EM Hard Currency Sovereigns	6.02	7.31	195	-17	-6	-6	-13	18	-1.54	-0.52	-0.52	-1.24	1.72	
EM Corporates	3.97	6.98	179	-4	-1	-1	1	6	-0.82	-0.15	-0.15	0.19	1.39	
EM Currencies	---	6.08	---	0	0	0	0	0	-0.45	-0.32	-0.32	2.94	4.71	
EM Local Rates	5.18	6.54	7	0	0	0	1	1	-0.05	0.03	0.03	0.98	2.59	
CMBS	3.59	5.70	68	5	2	2	-7	-7	-0.33	0.04	0.04	-1.02	0.04	
ABS	2.90	5.31	40	1	0	0	-12	-10	-0.10	0.09	0.09	0.36	1.44	
CLOs	3.85	5.95	127	1	0	0	-5	-6	0.05	0.02	0.02	3.62	4.86	
Municipal Bonds	7.47	4.63	---	-6	-15	-15	104	99	0.45	1.02	1.02	-3.20	-1.87	

	Level	Total return (%)						Change (%)					
		WTD	MTD	QTD	YTD	Prior year		Spot	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices							FX / commodities						
S&P 500 Index	7,723	-0.2	0.9	0.9	13.8	16.4	EUR / USD	1.1	-1.2	-0.7	-0.7	-4.2	-3.9
DAX	25,231	-0.7	0.1	0.1	3.0	3.3	USD / JPY	157.9	0.4	0.3	0.3	0.7	7.2
Stoxx 600	631	-1.1	-0.5	-0.5	9.6	14.8	GBP / USD	1.3	0.0	-0.2	-0.2	-1.7	-1.5
Nikkei 225	68,309	3.5	2.3	2.3	37.7	54.4	EUR / CHF	0.9	-1.2	-1.5	-1.5	0.2	-0.2
Shanghai Composite	3,888	-0.6	-2.3	-4.2	-0.3	3.2	USD / CHF	0.8	0.1	-0.8	-0.8	4.6	3.9
MSCI ACWI Index	1,148	1.0	0.0	2.8	14.7	20.0	USD (DXY)	101.9	1.0	0.5	0.5	3.7	4.2
FTSE 100	10,695	0.3	-1.1	2.7	10.4	19.8	Oil	91.1	-8.1	0.8	0.8	58.7	50.6
MOVE Index	96	19.0	27.5	33.4	50.1	27.3	Gold	4141.2	-3.4	-0.4	-0.4	-4.1	7.4
VIX Index	15	0.4	-0.3	-9.6	-0.5	-11.2							

Past performance is not a guarantee or a reliable indicator of future results. Sources: Bloomberg except EMD (J.P. Morgan), HY (ICE BofAML), Bank Loans (S&P), and CLOs (Palmer Square). European returns are unhedged in euros unless otherwise indicated. An investment cannot be made directly in an index.

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Source(s) of data (unless otherwise noted): PGIM as of October 5, 2026.

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